



CITY OF NORTHWOODS, MISSOURI

YEAR ENDED DECEMBER 31, 2000

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2001-18  
March 12, 2001  
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# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

March 2001

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**The following problems were discovered as a result of an audit conducted by our office of the City of Northwoods, Missouri.**

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As of December 31, 2000, at least \$10,096 of bond monies and \$1,990 of bond processing fees collected in the police department, was not transmitted to the city for deposit. In addition, records related to fees collected for police reports, and prosecution refusals were not sufficient to determine the amounts of monies collected and not transmitted. The misappropriation was not detected due to numerous internal control weaknesses and little or no independent review.

Bond monies transmitted to the city were deposited in the city's bond escrow account, and the bond forms given to the court clerk. In August the Court Clerk and City Office Manager sent a memorandum regarding missing bond monies to the Police Chief and the Administrative Aide responsible for making the transmittals. The memorandum identified approximately \$4,500 of bond monies that had not been received by the city/court for defendants who had appeared in court and presented bond forms for refund or payment of fines and costs. The Police Chief indicated that he personally repaid this \$4,500, but took no further action. Additional memoranda were sent in November 2000. Some changes were made in the bond collection procedures and the Police Chief indicates he was investigating the matter.

Information gathered during our review has been turned over to the St. Louis County Police Department and Prosecuting Attorney's office. The board should review the situation and take the necessary actions to obtain reimbursement of the missing monies and work with law enforcement officials regarding any criminal prosecution.

The city has not disbursed \$13,500 (the state's portion) of Crime Victim's Compensation and Peace Officer Standards and Training Commission fees collected, and neither the Police department nor the court maintain adequate records to account for tickets assigned and issued, and the ultimate disposition. Information noted in the case files does not always agree to the court computer system, police department records of active warrants did not always agree to the court records, and the Court Clerk could not locate many case files and court dockets. In addition, required records of convictions on traffic offenses are not forwarded to the Missouri state Highway Patrol.

(over)

YELLOW SHEET

Receipts are not deposited on a timely basis.

- Fine and cost receipts during January and February 2000, which totaled approximately \$11,000, were not deposited until June 2000.
- Approximately \$5,000 in bond monies were held by the city for more than three months before they were deposited and a total of \$12,805 in undeposited bond monies, dated as far back as October 15, 1999, were on hand at December 31, 1999. In addition, several deposit errors were noted resulting in \$890 of bond monies that were never deposited.

The Treasurer's monthly reports are not delivered to the board in a timely manner. For example, the July monthly report was presented to the board in October. As of January 26, 2001, the reports for October and later had not been completed. A timely, complete and accurate financial report is necessary to keep the board informed of the financial position of the city.

Capital improvement sales tax monies are being spent on non-capital improvement items, and law enforcement training fees are not accounted for separately or maintained in a separate fund.

Several disbursements were made during the year ended December 31, 2000 that do not appear to be a prudent use of public funds. Examples include flowers for funeral arrangements and get well plants (\$531), retiring employee party expenses (\$155), telephone calls to a psychic service (\$119), and items for fruit baskets (\$25). When this was brought to the city's attention, city personnel indicated they would seek reimbursement for the telephone calls to the psychic service.

The city's residents have placed a fiduciary trust in their public officials to spend tax revenues and fees in a necessary and prudent manner. Disbursements for other items could be funded through an employee contribution fund or association.

CITY OF NORTHWOODS, MISSOURI

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Northwoods  
Northwoods, Missouri 63121

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Northwoods, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 2000. The objectives of this audit were to:

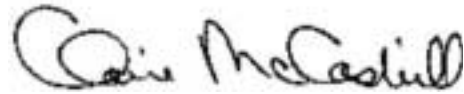
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with applicable generally accepted governmental auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied during our audit.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Northwoods, Missouri.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" being more prominent than the last name "McCaskill".

Claire McCaskill  
State Auditor

January 26, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Debra S. Lewis, CPA
In-Charge Auditor:	Karen A. Wolf
Audit Staff:	Douglas P. Robinson
	Carl E. Zilch, Jr.

## HISTORY AND ORGANIZATION



# CITY OF NORTHWOODS, MISSOURI HISTORY AND ORGANIZATION

The city of Northwoods was incorporated in 1940 and is located in north St. Louis County. The population of the city in 1990 was 5,106.

The city government consists of a mayor and an eight-member board of alderman. The eight board members are elected for two-year terms, one from each of the four wards each year. The mayor is elected for a two-year term, presides over the board of alderman, and votes only in case of a tie. The Mayor, Board of Alderman, and other principal officials at December 31, 2000, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for The Year Ended December 31, 2000</u>
Errol S. Bush, Mayor	April, 2001	\$ 5,400
Maggie M. Strong, Alderwoman	April, 2002	4,400
Sharon Pace, Alderwoman (1)	April, 2001	3,000
Jack Chase, Alderman	April, 2001	3,600
John Bowman, Alderman (3)	April, 2002	4,700 (4)
Shirley Johnson, Alderwoman (5)	April, 2002	4,100
David Tolliver, Alderman	April, 2001	3,700 (2)
Lona Moore, Alderwoman	April, 2001	3,600
Joe W. Jones, Alderman	April, 2002	4,700 (4)
Leno Holmes, Collector	April, 2001	3,700 (2)
<u>Other Principal Officers</u>		
Denise Johnson, City Clerk		26,605
Debra Walker, Treasurer (6)		900
Sylvester Jones, City Administrator/ Police Chief (7)		59,519
Thomas Flach, City Attorney		9,000
Nadine Nunn, Prosecuting Attorney		9,600
Clarissa Walker, Court Clerk (8)		7,722
Renee Mayweather, Office Manager		25,973
Gloria Reno, Municipal Judge		10,200

- (1) Elected to a one year term in April 2000. Jonnie Gross had been appointed in December 1999 to fill a vacancy caused by an Alderman's death.
- (2) Includes \$100 overpayment of compensation.
- (3) Resigned effective December 31, 2000. He was elected to the Missouri House of Representatives for the 70<sup>th</sup> District. This seat remains vacant.

- (4) Includes \$300 overpayment of compensation.
- (5) Appointed October 1999 to replace Johnnie Spears who resigned August 1999. She retained her position at the April 2000 election.
- (6) Joseph Schweitzer served as Treasurer until September 2000.
- (7) Sylvester Jones received \$46,519 for City Administrator and \$13,000 for Police Chief.
- (8) Dorothy Jones served as Court Clerk until July 2000.

As of December 31, 2000, the city of Northwoods employed 34 full-time employees and 8 part-time employees.

Assessed valuation and tax rate information for tax year 2000 are as follows:

#### ASSESSED VALUATION

Real estate	\$ 17,647,617
Personal property	<u>6,361,186</u>
Total	\$ <u>24,008,803</u>

#### TAX RATE PER \$100 ASSESSED VALUATION

General Revenue Fund	\$.36
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The city also has the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$ .01	None
Capital Improvement	.005	None

A summary of the financial activity of the city of Northwoods for the year ended December 31, 2000, is presented below:

	General Fund	Capital Improvement Fund	Bond Fund	Other Funds *	Total
<b>RECEIPTS</b>					
Property taxes	\$ 106,859	0	0	0	106,859
Sales taxes	639,413	281,026	0	0	920,439
Utility franchise taxes	495,229	0	0	0	495,229
Gasoline tax	150,977	0	0	0	150,977
Cigarette tax	23,241	0	0	0	23,241
Motor fuel and motor vehicle fees	58,630	0	0	0	58,630
Court costs	60,002	0	0	6,014	66,016
Bonds	0	0	47,860	0	47,860
Licenses, permits, and inspections	58,602	0	0	0	58,602
Interest/Gains on Investments	29,096	1,458	188	156	30,898
Grants	28,803	34,378	0	0	63,181
Automobile stickers	6,634	0	0	0	6,634
Reimbursements	32,265	0	0	0	32,265
Other	26,968	3,321	0	0	30,289
Transfers in	49,027	0	0	14,951	63,978
Total Receipts	1,765,746	320,183	48,048	21,121	2,155,098
<b>DISBURSEMENTS</b>					
Executive	446,228	0	0	0	446,228
Legislative	48,197	0	0	0	48,197
Judicial	94,256	0	0	0	94,256
Public works	244,115	0	0	0	244,115
Health service	189,144	0	0	0	189,144
Parks	9,557	0	0	0	9,557
Police	679,477	0	0	280	679,757
Housing and building	4,569	0	0	0	4,569
Capital improvements	0	336,025	0	0	336,025
Other	51,794	143	9,156	521	61,614
Transfers out	14,951	0	33,072	15,955	63,978
Total disbursements	1,782,288	336,168	42,228	16,756	2,177,440
Receipts over (under)					
Disbursements	(16,542)	(15,985)	5,820	4,365	(22,342)
Cash and Investments, January 1,	525,469	126,526	19,491	23,876	695,362
Cash and Investments, December 31,	\$ 508,927	110,541	25,311	28,241	673,020

\* Includes the Evidence, POST, Asset Forfeiture, Local Government Block Grant, Victims Compensation, Operating and Escrow Development Funds.

## MANAGEMENT ADVISORY REPORT

CITY OF NORTHWOODS, MISSOURI  
SUMMARY OF FINDINGS

1. Missing Funds (pages 11-12)

As of December 31, 2000, at least \$10,096 of bond monies and \$1,990 of bond processing fees collected in the police department, was not transmitted to the city for deposit. In addition, records related to fees collected for police reports, and prosecution refusals were not sufficient to determine the amounts of monies collected and not transmitted.

2. Bond Procedures (pages 12-14)

An independent reconciliation of the bonds received by the police department and the bonds transmitted to the city was not performed. The portions of the bond monies used to pay fines and costs were not disbursed to the city's general account on a timely basis and some were never disbursed. The Court Clerk did not maintain a bond ledger to account for the receipt, disbursement, and balance of bond monies, or prepare a monthly listing of open-items (liabilities) to document the amount of bond monies held by the city.

3. Municipal Court Division (pages 14-17)

The city has not disbursed \$13,500 (the state's portion) of Crime Victim's Compensation and Peace Officer Standards and Training Commission fees collected, and neither the police department nor the court maintain adequate records to account for tickets assigned and issued, and the ultimate disposition. Information noted in the case files does not always agree to the court computer system, police department records of active warrants did not always agree to the court records, and the Court Clerk could not locate many case files and court dockets. In addition, required records of convictions on traffic offenses are not forwarded to the Missouri State Highway Patrol.

4. Accounting Records and Procedures (pages 17-19)

Receipts are not deposited on a timely basis and the Treasurer's monthly report is not delivered to the board in a timely manner. Bank reconciliations are not accurate and there are no procedures to follow up on old outstanding checks. In addition, the police department's petty cash fund was not operated on an imprest basis, and police report and prosecution refusal receipt records could not be located.

5. Disbursement Procedures (pages 20-22)

The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursements being made, original invoices or other supporting documentation were not required or retained for several disbursements, and several

invoices were not paid on a timely basis. In addition, several disbursements did not appear to be a prudent use of public funds.

6. Payroll and Personnel Policies and Procedures (pages 22-24)

Several elected officials did not receive the correct amount of compensation for the year ended December 31, 2000. Employees are not required to submit itemized reports of actual travel expenses or of uniform expenses, nor are these amounts included on their W-2 forms. In addition, the city has not adopted a formal policy regarding the use of city-owned vehicles, including policies which would prohibit personal usage.

7. Restricted Revenues (pages 24-25)

Capital improvement sales tax monies are being spent on non-capital improvement items, and law enforcement training fees are not accounted for separately or maintained in a separate fund.

8. Budgets and Financial Reporting (pages 25-26)

The budget did not include a budget message or the actual and estimated beginning and ending cash and resources available. Capital improvement disbursements exceeded the budget by approximately \$36,000, and the city has not published semi-annual financial statements.

CITY OF NORTHWOODS, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Missing Funds</b>
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As of December 31, 2000, at least \$10,096 of bond monies and \$1,990 of bond processing fees collected in the police department, was not transmitted to the city for deposit. In addition, records related to fees collected for police reports, and prosecution refusals were not sufficient to determine the amounts of monies collected and not transmitted. The misappropriation was not detected due to numerous internal control weaknesses and little or no independent review.

Police officers accept cash for payment of bonds (including a \$5 processing fee) and issue a bond form, a copy of which serves as a receipt slip for the defendant. The police officers record the bond and fee on a bond log, and then place the monies and a copy of the bond form in a locked box. The monies and bond forms are removed from the locked box, and transmitted to the city for deposit. There were significant delays in the transmitting of some bonds, and other bonds, as well as all of the bond processing fees, were never transmitted to the city.

Bond monies transmitted to the city were deposited in the city's bond escrow account, and the bond forms given to the court clerk. In August the Court Clerk and City Office Manager sent a memorandum regarding missing bond monies to the Police Chief and the Administrative Aide responsible for making the transmittals. The memorandum identified approximately \$4,500 of bond monies that had not been received by the city/court for defendants who had appeared in court and presented bond forms for refund or payment of fines and costs. The Police Chief indicated that he personally repaid this \$4,500, but took no further action. Additional memorandums were sent in November 2000. Some changes were made in the bond collection procedures and the Police Chief indicates he was investigating the matter.

The misappropriation was not detected throughout the audit period due to numerous internal control weaknesses, little or no independent review, and inadequate follow up to discrepancies noted. See related Management Advisory Report (MAR) comments No. 2 and 4 related to accounting controls, records and procedures. Information gathered during our review has been turned over to the St. Louis County Police Department and Prosecuting Attorney's office.

**WE RECOMMEND** the Board of Aldermen review the situation and take the necessary actions to obtain reimbursement of the missing monies, and work with law enforcement officials regarding any criminal prosecution.

## **AUDITEE'S RESPONSE:**

*The Mayor and Board of Aldermen agree with the recommendation. This matter, upon discovery was immediately referred to the Prosecuting Attorney of St. Louis County for investigation. This investigation is continuing and the City officials will take whatever action that is necessary to obtain reimbursement. Prosecution of any criminal offense arising out of this matter is in the discretion of the Prosecuting Attorney's Office of St. Louis County.*

<b>2. Bond Procedures</b>
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- A. An independent reconciliation of the bonds received by the police department and the bonds transmitted to the city was not performed. The police officers maintain a log of bond monies received; however, the log does not appear complete. Several bonds transmitted from the police department to the city were not listed on the bond log. When police personnel remove bond monies from the bond box, the monies should be reconciled to the bond log to ensure all monies are accounted for properly and the log is complete.

A transmittal form, listing each bond to be transmitted, is completed and sent with the bond forms and bond monies to the city. To adequately account for all bond receipts and ensure all receipts are properly deposited, someone independent of the bond processing function should reconcile the police bond log to the bond transmittals to ensure all bonds received are transmitted to the city for deposit.

- B. The portions of the bond monies used to pay fines and costs were not disbursed to the city's general account on a timely basis and some were never disbursed. The Court Clerk determines the amount of bonds to be paid to the city's general account on court night; however, city personnel indicated they normally do not disburse the bond monies to the city's general account until the week following court. City personnel did not ensure the bond monies were received by the general account.

To adequately account for bond monies, the Court Clerk should include the disbursement from the bond account with transmittal of the other fines and costs monies collected on court night. In addition, city personnel should ensure the amount transmitted equals receipt slips issued per the fines and costs ledger.

- C. Receipt slips are not issued for bonds received from other political subdivisions. These bond monies are received directly by the city and deposited to the bond account. To adequately account for bond monies received, a prenumbered receipt slip should be issued for all monies received.
- D. The Court Clerk does not maintain a bond ledger to account for the receipt, disbursement, and balance of bond monies, nor does she prepare a monthly listing of open-items (liabilities) to document the amount of bond monies being held by



the city. At our request, the Office Manager prepared a listing as of December 31, 2000. The open items listing totaled approximately \$13,000 less than the balance in the bond account. The court computer system has the capability of maintaining an open items list; however, the Court Clerk does not record bond information on the computer.

A bond ledger indicating date and amount of receipt and date of disbursement is necessary to ensure proper accountability over bonds. Monthly open-items listings should be prepared and reconciled to the bond ledger and reconciled bank balance held by the city, to ensure proper accountability over open cases and ensure monies held in trust are sufficient to meet liabilities. An attempt should be made to determine the proper disposition of these excess monies. For those bonds which remain unclaimed, Section 447.595, RSMo 2000, requires bonds remaining unclaimed for one year after disposition of the case be turned over to the state's Unclaimed Property Section.

Conditions B, C, and D were noted in our prior report.

**WE RECOMMEND** the Municipal Division:

- A. Ensure someone independent of the bond processing function reconciles the police bond log to bonds transmitted to the city for deposit.
- B. Ensure the portion of bond monies used to pay fines and costs is disbursed to the city's general account on a timely basis. In addition, city personnel should ensure the amount transmitted equals receipt slips issued per the fines and costs ledger.
- C. Ensure prenumbered receipt slips are issued for all bond monies received.
- D. Maintain a bond ledger, prepare a monthly listing of open items and reconcile the listing to the ledger balance and reconciled bank balance. The municipal division should attempt to identify to whom the \$13,000 belongs, and disburse the funds appropriately. If this cannot be determined, the unidentified bond monies should be turned over to the state's Unclaimed Property Section in accordance with state law.

**AUDITEE'S RESPONSE:**

*The City and Municipal Judge provided the following response:*

- A. *The city will ensure that an independent person reconciles the police bond log to the bond deposit in the city's general account.*
- B. *This recommendation has already been implemented.*
- C. *This recommendation has been implemented and will be enforced.*

- D. *This recommendation will be implemented immediately. Adequate procedures will be instituted to identify all individuals on closed cases to whom a bond is owed. The court will disburse the funds appropriately. The court will forward any unidentified bond monies which exceed the one year time period to the state's Unclaimed Property Section in accordance with state law.*

**3.**

**Municipal Court Division**

- A. The city does not disburse the state's portion of the Crime Victims Compensation (CVC) and Peace Officer Standards and Training Commission (POSTC) fees for cases on which they were collected. Section 595.045, RSMo 2000, requires 95 percent of the CVC fees be paid monthly to the state. POSTC fees should also be disbursed monthly to the state. No disbursements were made during the year ended December 31, 2000. CVC and POSTC fees collected through February 2000 were deposited to separate bank accounts; however, the city began depositing CVC and POSTC monies into the city's general fund in March 2000. As of December 31, 2000, approximately \$10,500 and \$3,000 was due to the state for CVC and POSTC, respectively.

- B.1. Information noted in the case files does not always agree to the court computer system. Some case files indicated the tickets were paid and closed but the computer showed the case as open with a balance due.

The court allows defendants to make partial payments of fines and court costs. Although the court's computer system tracks payment history as well as amounts owed to the court, the accounts receivable records are not accurate because some payments were not recorded on the computer system. The computer generates an income report that lists all payments recorded on the computer, however, this report is not used or retained by the court clerk. The income report should be reconciled to receipt slips issued to ensure all payments are recorded on the computer.

To ensure the court records are accurate and up-to-date, all information as well as the ultimate disposition of each case should be entered into the court's computer system in a timely manner. To fully utilize the court computer system, computer generated income reports should be reconciled to receipt slips.

2. Police department records of active warrants did not agree to the court records in some cases. To ensure proper disposition of all cases, the police warrant records should be periodically compared to the court's records and differences should be resolved.
- C. The police department maintains manual logs of ticket books assigned and tickets issued, but the logs are not complete or adequate to account for all tickets issued

and their ultimate disposition. The log of ticket books assigned had several books listed without the names of the officers assigned the books and one ticket book that was not recorded on the log. The log of tickets issued does not account for the tickets in numerical sequence. Each officer records their tickets issued; however, the log is not reviewed to account for the numerical sequence. Numerous tickets could not be located or accounted for properly.

Without a proper accounting of the numerical sequence and disposition of tickets, the police department and the court cannot be assured that all tickets issued were properly submitted to the court for processing. A complete listing of each ticket number, the date issued, offense, and violator's name would help ensure all tickets issued are properly submitted to the court for processing, properly voided, or not prosecuted. In addition, a record should be maintained of the ultimate disposition of each ticket.

This condition was noted in our prior report.

- D. Checks and money orders are not restrictively endorsed until deposits are prepared by the city. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- E. The Court Clerk could not locate fifteen of the seventy case files requested for review and several of the final court dockets. In addition, monthly reports generated from the computer system were not retained. While fourteen of the cases were located on the court's computer system and the computer reports needed were obtained from the computer programmer, the case files and computer reports should be retained. Supreme Court Rule 8 requires all municipal ordinance case files be maintained for three years after the date of filing and financial records be maintained for five years or upon completion of an audit.

A similar condition was noted in our prior report.

- F. The municipal division does not forward required records of convictions on traffic offenses to the Missouri State Highway Patrol (MSHP). Court personnel indicated the prior court clerk forwarded the white copy of the ticket to the MSHP; however, this has not been done since the prior court clerk left in July 2000. Our review of twenty four case files noted that the white copies of the tickets remained in the case files.

Section 302.225, RSMo 2000, requires records of any pleas or findings of guilty traffic violations under the laws of the state, county, or municipal ordinance to be forwarded to the MSHP within ten days of the conviction date.

- G. The Court Clerk does not file a monthly report with the city of all cases heard in court. Section 479.080.3, RSMo 2000, requires the Court Clerk to prepare a monthly listing of all cases heard in court or prepaid at the Traffic Violations

Bureau (TVB), including all fines and court costs collected, to be verified by the clerk or Municipal Judge and filed with the city's governing body.

**WE RECOMMEND** the Municipal Division:

- A. Work with the city to ensure all CVC and POSTC fees collected are remitted to the state in accordance with state law and on a timely basis.
- B.1. Ensure payment information and the final disposition of all court cases is recorded on the computer system on a timely basis. In addition, computer income reports should be reconciled to receipt slips to ensure all payments are properly recorded.
- 2. Work with the police department to ensure the police and court warrant records are in agreement.
- C. Work with the police department to ensure adequate records are maintained to account for the numerical sequence and ultimate disposition of all tickets assigned and issued.
- D. Restrictively endorse checks and money orders immediately upon receipt.
- E. Retain all tickets, case information, and financial records in accordance with Supreme Court Rule 8.
- F. Forward records of conviction on traffic offenses to the MSHP as required by state law. In addition, cases disposed of since July 2000 should be reviewed, and any applicable tickets filed with the MSHP.
- G. Prepare monthly reports of court actions, including fines and costs collected, and file these with the city's governing body in accordance with state law.

**AUDITEE'S RESPONSE:**

*The City and Municipal Judge provided the following response:*

- A. *This recommendation has been implemented and will be followed on a timely basis.*
- B.1. *This recommendation will be implemented immediately.*
- 2. *The police department has been made aware of this concern. Adequate procedures are being instituted between the court and police department to ensure that the court and police department warrants are in agreement.*
- C. *The police department has been made aware of this concern. The court will account for all traffic tickets and summons transmitted to court. The Police Department has indicated that it will account for tickets assigned and issued.*

*D.-F. This recommendation has already been implemented.*

*G. This recommendation will be implemented immediately.*

<b>4. Accounting Records and Procedures</b>
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A. Receipts are not deposited on a timely basis.

- Deposits for license fees, permits, city stickers, and grants were made twice a month and averaged \$21,000 during February and July 2000.
- Fine and cost receipts during January and February 2000, which totaled approximately \$11,000, were not deposited until June 2000.
- Approximately \$5,000 in bond monies were held by the city for more than three months before they were deposited and a total of \$12,805 in undeposited bond monies, dated as far back as October 15, 1999, were on hand at December 31, 1999. In addition, several deposit errors were noted resulting in \$890 of bond monies that was never deposited.

As a result, a significant amount of cash received was not reflected on the Treasurer's report when received. The Treasurer should ensure her report reflects any significant amount of cash on hand at year end.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, receipts should be deposited daily or when accumulated receipts exceed \$100. In addition, the Treasurer should ensure any cash on hand is properly reflected on her financial report.

B. The Treasurer's monthly reports are not delivered to the board in a timely manner. For example, the July monthly report was presented to the board in October. As of January 26, 2001, the reports for October and later had not been completed.

A timely, complete and accurate financial report is necessary to keep the board informed of the financial position of the city.

C.1. Bank reconciliations for the general account and bond account were not accurate for December 2000. For example, the outstanding check lists prepared for these accounts did not include some checks that were outstanding at December 31, 2000 and included several checks that had cleared in previous months. As a result, the reconciled bank balances did not agree to the treasurer's book balances. The Treasurer indicated she was aware of the errors on the bank reconciliations; however, she did not correct the errors, or investigate the differences between the reconciled bank balances and the book balances.

Complete and accurate bank reconciliations should be prepared to ensure all monies have been properly deposited, accounting records are in agreement with the bank, and errors or discrepancies are detected and corrected timely. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made and to facilitate independent reviews.

2. Checks totaling \$6,582 and \$5,726 written on the general account and bond account, respectively, have been outstanding for more than one year as of December 31, 2000. Some checks dated as far back as January 1996 and February 1998 for the general account and bond account, respectively.

Outstanding checks should be periodically reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If the payees cannot be located, the amounts should be disbursed to the state's Unclaimed Property Section as required by Section 447.595, RSMo 2000.

3. Voided checks are not adjusted to the cash balances on a timely basis. In addition, voided bond checks were not always retained. Voided checks should be adjusted to cash balances on a timely basis to ensure cash balances are current and accurate. In addition, to ensure all checks are properly accounted for, voided checks should be defaced and retained.
- D. The police department's petty cash fund was not operated on an imprest basis. In addition, invoices or receipts were not maintained for some expenditures, and a ledger was not maintained to document disbursements. The fund was entirely under the police administrative aide's control and no independent review was made of the fund to ensure it was maintained properly.

According to city personnel, the police department's petty cash fund was originally established at \$150. A cash count on November 8, 2000, indicated only approximately \$7 currency on hand and \$50 of receipts on hand to be reimbursed. Police department personnel could not explain the \$93 shortage.

Invoices should be maintained for all petty cash disbursements and the fund should be operated on an imprest basis, meaning that cash and invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. A ledger of all petty cash transactions should be maintained. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect any errors, and to prevent these monies from being misused.

- E. As discussed in MAR 1, the police report and prosecution refusal receipt records could not be located. Retention of city records is essential to establishing accountability for city financial activity and in demonstrating compliance with

state law. Effective control of records requires all documents and records be safeguarded against loss due to fire or theft, be accessible to the appropriate city officials/employees, and upon reasonable request, be accessible to the public.

**WE RECOMMEND** the Board of Alderman:

- A. Ensure receipts are deposited daily or when accumulated receipts exceed \$100 and investigate the \$890 of undeposited receipts and take appropriate action to recover any missing amounts. In addition, the Treasurer should ensure any cash on hand at year end is appropriately reflected on her report.
- B. Work with the Treasurer to ensure monthly reports are presented to the board timely.
- C.1. Ensure complete and accurate bank reconciliations are prepared monthly and reconciled to accounting records.
  - 2. Reissue old outstanding checks to any payees who can be located. If the payees cannot be located, the monies should be disposed of through the applicable statutory provisions. In addition, procedures to routinely review and reissue any old outstanding checks should be adopted.
  - 3. Ensure all voided checks are adjusted to the cash balances on a timely basis, and all voided checks are defaced and retained.
- D. Work with the police department to ensure the petty cash fund is maintained on an imprest basis and periodically counted and reconciled to the imprest balance by an independent person. In addition, invoices should be maintained for all petty cash disbursements and a ledger should be prepared of all petty cash transactions.
- E. Work with the police department to ensure all records of the city are properly retained and available for review.

**AUDITEE'S RESPONSE:**

*The City will consider and adopt new policies that cover these recommendations.*

*In addition, the Board will begin an investigation as to the \$890 of undeposited receipts.*

*Due to a turnover in employees, some employees have not been trained with regards to all aspects of their duties and renewed efforts will be undertaken to insure all employees understand their job responsibilities.*

*As to the issue of outstanding checks, the new City Treasurer, prior to the issuance of this report, has attempted to secure correct information in order that any outstanding checks can be reissued and/or deposited with the Unclaimed Property Section of the State of Missouri. She will continue in her efforts to clear up any outstanding checks.*

**5.****Disbursement Procedures**

- A.1. The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursements being made. A statement of bills is prepared monthly by the Office Manager which lists the general fund checks issued during the month; however, the statement of bills is generally presented to the board two months after the disbursements have been made. In addition, the board does not review invoices nor have they assigned someone independent of the check preparation and signing process to review the invoices. Although the Mayor and City Administrator review the invoices, they are also authorized to sign checks.

Capital improvement checks are not presented to the board and therefore, are not authorized by the board. The Treasurer's monthly report that is approved by the board includes total capital improvement disbursements; however, the report does not provide the detail of each check issued.

There were several transfers between funds and investments during the year ended December 31, 2000 that were not approved in advance by the board. According to the former Treasurer, the City Administrator authorized the transfers; however, his authorization was not documented.

Good business practices require all disbursements to be closely scrutinized by the board or someone independent of the disbursement process and properly authorized before the disbursement occurs. In addition, an independent reconciliation should be performed of the invoices, approved listing of bills, and actual checks written. Failure to properly review all invoices and other supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements occurring and not being detected on a timely basis.

2. City ordinance 115.050 gives the City Administrator authority to oversee disbursements approved in the budget up to \$500 per item, not to exceed \$1,500 for a month. However, some disbursements, such as a court computer system upgrade (\$4,775), lights and sirens for police cars (\$3,500), and tires for city vehicles (\$657) were not approved by the board. While these items were approved in the budget, the actual disbursements were not approved in advance by the board as required by city ordinance.
- B. Original invoices or other supporting documentation were not required or retained for several disbursements. The Office Manager often pays bills from monthly statements rather than detailed invoices. Examples include credit card bills (\$3,794), professional dues (\$2,050), conference expenses (\$1,743), police department office supplies (\$1,484), cellular phone bills (\$674) and numerous



expense accounts and cash advances to city officials, employees, and other individuals for purchases or travel made on behalf of the city (\$920).

All disbursements should be supported by detailed expense accounts, paid receipts, contracts, or vendor-provided invoices to ensure the obligations were actually incurred and the disbursements represent appropriate uses of public funds. Invoices for registration, airfare, lodging, or other conference expenses are necessary to determine the attendees at these conferences.

In addition, receipts for credit card purchases should be reconciled to credit card statements to ensure the propriety of the charges. Without adequate supporting documentation, the city cannot evaluate the necessity and reasonableness of credit card purchases.

- C. Several invoices were paid late or included past due amounts. One vendor was overpaid because invoices were shown on more than one monthly statement. The city was apparently behind on its payment so, the vendor had listed the unpaid invoices again; however, the city paid the total of the three statements rather than the current balance. The vendor mailed the city a refund check for the overpayment.

Good business practices require timely payments of invoices. Failure to make timely payments could result in unnecessary penalties and interest.

- D. Several disbursements were made during the year ended December 31, 2000 that do not appear to be a prudent use of public funds. Examples include flowers for funeral arrangements and get well plants (\$531), retiring employee party expenses (\$155), telephone calls to a psychic service (\$119), and items for fruit baskets (\$25). When this was brought to the city's attention, city personnel indicated they would seek reimbursement for the telephone calls to the psychic service.

The city's residents have placed a fiduciary trust in their public officials to spend tax revenues and fees in a necessary and prudent manner. Disbursements for other items could be funded through an employee contribution fund or association.

- E. Invoices and other supporting documentation are not always initialed or dated by a city employee to indicate receipt and acceptance of the goods or services. To ensure the goods and services have been properly received by the city, all invoices and other supporting documentation should be properly initialed or signed by a city employee upon receipt.
- F. The city does not have a written contract with the city of Pine Lawn for rabies control. The city of Northwoods indicated they have a verbal agreement with the city of Pine Lawn to equally share the expenses of the Municipal Rabies Control Corporation.

Section 432.070, RSMo 2000, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

**WE RECOMMEND** the Board of Alderman:

- A. Review and approve the expenditure of city funds prior to disbursements being made. In addition, either the board or someone independent of the check preparation and signing process should review the invoices. Approved listings of bills should also be compared to checks written.
- B. Ensure that invoices or other supporting documentation are maintained to support all city disbursements.
- C. Ensure bills are paid on a timely basis. In addition, procedures should be established to ensure invoices are not paid twice.
- D. Limit disbursements to only those necessary to properly operate the city and ensure reimbursement is obtained for the telephone call to the psychic service.
- E. Require all invoices be initialed or signed by a city employee to indicate acceptance of the goods or services.
- F. Enter into a written contract with the city of Pine Lawn for rabies control.

**AUDITEE'S RESPONSE:**

A.-C.

*&E. The City will consider and adopt policies in accordance with these recommendations.*

*D. As to the expenses necessary to operate the City, the City has already received reimbursement for the item mentioned in this recommendation.*

*F. As to the Pine Lawn agreement, the City intends to enter into a written contract with the City of Pine Lawn for rabies control.*

<b>6. Payroll and Personnel Policies and Procedures</b>
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- A. Several elected officials did not receive the correct amount of compensation for the year ended December 31, 2000. In March 2000, two aldermen were paid an additional \$300 and in June 2000, three aldermen and the collector were paid an

additional \$100. Two aldermen returned their \$100 overpayment; however, the remaining overpayments were not refunded to the city. City personnel indicated these overpayments were the result of payroll errors.

The city should ensure the excess compensation paid to the applicable officials is reimbursed. In addition, the city should ensure compensation paid to city officials is paid in accordance with city ordinances.

- B. Employees are paid per diems of \$20 per day to cover meal expenses when traveling for city business. These amounts are not included on their W-2 forms and employees are not required to document actual expenditures paid from the per diem payments.

The Board of Alderman should adopt travel policies to ensure the city pays for only actual and reasonable travel expenses. If the board continues to provide per diem payments, the city should include per diem payments as income on applicable W-2 forms.

- C. During the year ended December 31, 2000, approximately \$15,000 in uniform allowances were paid to police officers, police clerks, public works employees, and the housing code enforcer. The employees are not required to submit an itemized report of uniform expenditures and these amounts are not reported on the employees' W-2 forms.

Internal Revenue Service Regulation Section 31.3401 (a)-4 requires expenses not accounted for to the employer to be considered as gross income and also requires payroll taxes to be withheld from this gross income.

- D. The city owns twelve patrol cars, five public works trucks, and two city cars. The city has not adopted a formal policy regarding the use of city-owned vehicles, including policies which prohibit personal usage. A formal policy would help ensure the vehicles are used only in a manner approved by the board.

In addition, mileage logs which document vehicle usage are not maintained. Mileage logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles are used only for city business and help identify vehicles which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure compensation paid to city officials is paid in accordance with city ordinances. Any overpayments received should be reimbursed to the city.

- B. Establish a travel policy to ensure only actual and necessary travel expenses are reimbursed to employees. If per diem payments continue to be made, the city should include these payments as income on applicable W-2 forms.
- C. Require the employees to submit itemized reports of uniform expenses or report the uniform allowances as other income on the employees' W-2 forms.
- D. Establish a formal policy governing the use of city vehicles, and require mileage logs to be maintained for each vehicle. The logs should be reviewed by a supervisor periodically for completeness and reasonableness.

**AUDITEE'S RESPONSE:**

- A. *Due to payroll errors and budget processing errors, some City officials were overpaid. All of said officials have reimbursed the City, and it is clear that there was no attempt made by any City official to defraud the City of any money.*
- B.-C. *The City will take the necessary steps to bring the City's policies into compliance with IRS Regulations as stated in these recommendations.*
- D. *The City will review and consider adopting this recommendation.*

<b>7.</b>	<b>Restricted Revenues</b>
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- A. Capital improvement sales tax monies are being spent on non-capital improvement items. In November 1995, city voters passed a 1/2 cent capital improvement sales tax to be used for the purpose of funding capital improvements. The following disbursements, made from this fund, do not appear to be capital improvements:

Three police cars	\$43,500
Court computer system upgrade	4,775
Lights and sirens for police cars	3,500
Copy machine	3,003
Computer maintenance	766
Tires for city vehicles	657
Digital camera	480
Flowers for city hall grounds	210

Section 94.577, RSMo 2000, states that all capital improvement sales tax receipts shall be deposited in a special trust fund and used solely for capital improvements.

- B. Law enforcement training fees are not maintained in a separate fund, or accounted for separately. While the city tracks law enforcement training fees collected,

disbursements are not accounted for separately to ensure the fees are used solely for training of law enforcement officers.

Section 590.140, RSMo 2000, requires law enforcement training fees to be used only for the training of law enforcement officers. The city should transfer law enforcement training fees collected to a separate fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

**WE RECOMMEND** the Board of Alderman:

- A. Ensure capital improvement sales tax monies are used solely for their intended purpose and repay the capital improvement sales tax fund for any monies spent for other purposes.
- B. Establish a separate accounting for law enforcement training fees to ensure compliance with state law.

**AUDITEE'S RESPONSE:**

- A. *The City does not necessarily agree with the State Auditor's Office's finding and interpretation of capital improvements since there is no definition under Missouri statutory or case law of the term capital improvement. However, certain items (totaling \$1,347) paid out from the capital improvement account were not authorized by the Board of Aldermen to be paid out from said account, and those expenses will be repaid to the account from general revenue. No City funds were missing and/or misappropriated, but simply paid from the wrong account. The City will consider the State Auditor's comments when formulating next year's budget.*
- B. *The City will adopt this recommendation.*

<b>8. Budgets and Financial Reporting</b>
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- A. The budgets for the years ended December 31, 2001 and 2000, did not include a budget message, or the actual and estimated beginning and ending cash and resources available. The budgets presented the actual revenues for the three preceding years but did not present disbursements for any prior years. Section 67.010, RSMo 2000, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations, and include the beginning available resources and a

reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

- B. For the year ended December 31, 2000, actual expenditures exceeded budgeted expenditures by \$36,168 for the Capital Improvement Fund.

Section 67.040, RSMo 2000, indicates a political subdivision shall not increase the total amount authorized for expenditure from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures. The board should ensure any budget amendments are properly authorized and adequately documented.

- C. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 2000, requires the Board of Alderman to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo 2000, states the city cannot legally disburse funds until the financial statement is published.

**WE RECOMMEND** the Board of Alderman:

- A. Prepare budgets that contain all information as required by state law.
- B. Ensure actual expenditures do not exceed budgeted amounts. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such.
- C. Publish semi-annual financial statements as required by state law.

**AUDITEE'S RESPONSE:**

- A. *The City did prepare a budget, however, the disbursements for prior years were not presented at the time of the adoption of the budget. Said prior disbursements had been available, and the City will reformat its budget to accommodate the other information requested.*

- B.-C. *The City will adopt these recommendations.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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